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JAN 10 2013

**SECRETARY, BOARD OF
OIL, GAS & MINING**

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF XTO ENERGY INC. FOR AN ORDER ESTABLISHING A SPECIAL DRILLING UNIT FOR THE HCU 1-30F HORIZONTAL WELL FOR THE PRODUCTION OF GAS AND ASSOCIATED OIL AND HYDROCARBONS FROM A DEFINED PORTION OF THE MANCOS FORMATION COMPRISED OF THE E $\frac{1}{2}$ E $\frac{1}{2}$ AND E $\frac{1}{2}$ SW $\frac{1}{4}$ SE $\frac{1}{4}$ OF SECTION 30 AND THE NE $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ AND E $\frac{1}{2}$ W $\frac{1}{2}$ NE $\frac{1}{4}$ OF SECTION 31, TOWNSHIP 10 SOUTH, RANGE 20 EAST, SLM, UINTAH COUNTY, UTAH

REQUEST FOR AGENCY ACTION

Docket No. 2013-005

Cause No. 197-14

COMES NOW, XTO Energy Inc. ("XTO"), acting by and through its attorneys, MacDonald & Miller Mineral Legal Services, PLLC, and pursuant to Utah Code Ann. §§40-6-5(3)(b) and 40-6-6(6), and hereby respectfully requests the Board of Oil, Gas and Mining (the "Board") to enter an order establishing a special drilling unit for the HCU 1-30F horizontal well (the "Subject Well") for the production of gas and associated oil and hydrocarbons from the following portion of the Mancos formation, located below the base of the Mancos "B":

the interval commencing at the stratigraphic equivalent measured depth of 12,544 feet below Kelly Bushing (TVDSS elevation -7345') down to the stratigraphic equivalent of 13,137 feet below Kelly Bushing (TVDSS elevation -7937') as shown on the Schlumberger Lateral Array Log dated

August 24, 2008 for the HCU 12-29F well located in the SW $\frac{1}{4}$ of Section 29, Township 10 South, Range 20 East, Uintah County, Utah, API No. 43-047-39611,

comprised of the following Uintah County, Utah lands:

Township 10 South, Range 20 East, SLM

Section 30: E $\frac{1}{2}$ E $\frac{1}{2}$ and E $\frac{1}{2}$ SW $\frac{1}{4}$ SE $\frac{1}{4}$

Section 31: NE $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ and E $\frac{1}{2}$ W $\frac{1}{2}$ NE $\frac{1}{4}$

(containing 290 acres)

(the “Subject Lands”), retroactive to October 27, 2010, the date of first production from the Subject Well.

In support of this Request, XTO respectfully states and represents:

1. XTO is a Delaware corporation in good standing, with its principal place of business in Fort Worth, Texas, and is duly authorized to conduct business in the State of Utah. It is duly bonded with all appropriate State of Utah and Federal agencies relevant to this cause.

2. The oil and gas underlying the Subject Lands are owned by the United States of America, administered by the Bureau of Land Management (“BLM”), and subject to the following Federal oil and gas leases:

<u>Lease</u>	<u>Lands</u>
UTU-29784	Section 30: E $\frac{1}{2}$ E $\frac{1}{2}$ and E $\frac{1}{2}$ SW $\frac{1}{4}$ SE $\frac{1}{4}$
UTU-30693	Section 31: NE $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ and E $\frac{1}{2}$ W $\frac{1}{2}$ NE $\frac{1}{4}$

(the “Subject Leases”). The operating rights in the Subject Leases as relevant to the portion of the Mancos formation relevant to this cause (defined above) are solely owned by XTO.

3. The Subject Lands and Subject Leases are fully committed to the Hill Creek Federal Exploratory Unit, approved by the BLM effective April 1, 2000. XTO serves as Unit Operator.

4. Under the terms of the Hill Creek Unit Agreement, all oil and gas in all formations underlying the committed lands are unitized. However, production is only allocated on a participating area basis, established by wells that are capable of producing Unitized Substances in Paying Quantities; *to wit*: “quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit.” Production from any well not meeting the “Unit Paying Quantities” criteria and not otherwise within an established participating area is instead to be allocated on a leasehold basis.

5. Pursuant to an application to drill approved by both the BLM and Utah Division of Oil, Gas and Mining (the “Division”), XTO spud the Subject Well on March 22, 2010 at a surface location 592 feet FNL and 570 feet FEL in the NE¹/₄NE¹/₄ of Section 30, and drilled it horizontally with a terminus located 1,558 feet FNL and 1,297 feet FEL in the SE¹/₄NE¹/₄ of Section 31. The lateral was drilled through and perforated in the portion of the Mancos formation relevant to this cause (defined above), and the Subject Well was completed on October 27, 2010 as a producing gas well. The Subject Well was

the first producing horizontal Mancos formation well in the Hill Creek Unit Area. However, despite several months of testing and production, the BLM, by Letter dated December 13, 2012, notified XTO that the Subject Well did not satisfy the “Unit Paying Quantities” criteria under the Hill Creek Unit Agreement.

6. Since the vertical portion and the lateral of the Subject Well encompass portions of two Federal Leases, under Federal regulations, a communitization agreement will be required. However, under Federal guidelines, the BLM will not approve a communitization agreement without a conforming spacing order from the Board. Other than the Board’s Order entered on August 17, 2000 in Cause No. 197-11 suspending application of existing Wasatch-Mesaverde formation (shallower depths) spacing orders and the general well siting and operational rules as to committed lands within the Hill Creek Unit Area, there currently is no spacing order from the Board relating to the Subject Lands and particularly to any portion of the Mancos formation.

7. Consequently, and to protect correlative rights relating to the Subject Well, XTO requests the Board to establish a special drilling unit for the Subject Well, *i.e.*, the gas and associated oil and hydrocarbons produced from the portion of the Mancos formation relevant to this cause (defined above) comprised of the Subject Lands (290 acres), retroactive to October 27, 2010, the date of first production for the Subject Well.

8. XTO believes and therefore alleges that: (1) the portion of the Mancos formation defined above underlying the Subject Lands generally constitutes a common

source of supply for gas and associated oil and hydrocarbons; and (2) the Subject Lands are not smaller than the maximum area that can be economically and efficiently drained by the Subject Well.

9. The basis for XTO's allegations made in Paragraph 8 above in part stem from the circle-tangent methodology currently employed by the Reservoir Management Group of the Wyoming State Office of the BLM to determine the participating areas (drainage area) for horizontal wells within Federal exploratory units; namely:

creating circles with 660' radii around the casing shoe point of the lateral in the producing formation and around the end of the lateral, constructing tangents between them, and including as part of the participating area any 10-acre subdivision then cut by the circles and tangent so created/constructed,

which methodology was previously approved by the Board in its Order entered on January 9, 2012 in Cause No. 197-12; *albeit*, for oil production from the Uteland Butte Member of the Green River formation in the Maverick Unit Area of Uintah County.

10. In furtherance of the protection of correlative rights, XTO requests that no well (whether vertical or horizontal) producing from the portion of the Mancos formation relevant to this cause (defined above) may be located closer than 1,320 feet from any portion of the Subject Well's lateral located within said formation portion without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3.

11. XTO believes and therefore alleges that the requested relief will allow for the orderly development of the Subject Lands, prevent waste, and adequately protect the correlative rights of all affected parties, and is just and reasonable.

12. XTO will, in accordance with Board rules, submit exhibits and present testimony in support of these allegations.

13. XTO will separately file a certificate of mailing listing all parties known to it based on a search of the respective BLM and Uintah County realty records, the records of the Division, and upon its own internal records, whose “legally protected interests” will be affected by this request. There are no respondents or adverse parties known at this time to XTO.

WHEREFORE, XTO respectfully requests:

1. That this matter be set for hearing on February 27, 2013;
2. That notice of such hearing be given as provided by law; and
3. That upon sufficient evidence produced and testimony given at the hearing, the Board issue an order:

- a) establishing a special drilling unit for the HCU 1-30F horizontal well for the production of gas and associated oil and hydrocarbons from the portion of the Mancos formation defined above, comprised of the E $\frac{1}{2}$ E $\frac{1}{2}$ and E $\frac{1}{2}$ SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 30, and the NE $\frac{1}{4}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ and E $\frac{1}{2}$ W $\frac{1}{2}$ NE $\frac{1}{4}$ of Section 31, Township 10 South, Range 20 East, SLM, Uintah County, Utah, retroactive to October 27, 2010, the date of first production from said Well;

- b) providing that no well (whether vertical or horizontal) producing from the portion of the Mancos formation defined above may be located closer than 1,320 feet from any portion of the Subject Well's lateral located within said formation without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3;
- c) making such findings and orders in connection with this Request as it deems necessary; and
- d) providing for such other and further relief as may be just and equitable under the circumstances.

Respectfully submitted this 10th day of January 2013.

**MACDONALD & MILLER
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